INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of June 30, 2005 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China (ROC). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in ROC.

July 25, 2005

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CORPORATION

BALANCE SHEETS
JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

	2005		2004	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 50,310,286	18	$ 6,924,331	3
Short-term investments (Notes 2 and 4)	13,649,677	5	42,960,200	18
Notes receivable (Notes 5 and 20)	2,012,127	1	1,327,276	1
Accounts receivable, net of allowance for doubtful accounts of $134 thousand as of June 30, 2004 (Notes 2, 5 and 20)	2,790,459	1	2,696,939	1
Other receivables	2,040,593	1	3,041,916	1
Inventories (Notes 2 and 6)	28,755,867	10	23,010,984	10
Deferred income tax assets (Note 17)	287,422	-	87,175	-
Pledged time deposits (Notes 10 and 21)	4,600,000	2	4,100,000	2
Other	781,447	-	340,392	-
Total current assets	105,227,878	38	84,489,213	36
LONG-TERM INVESTMENTS (Notes 2, 7 and 21)				
Long-term stock investments				
Equity method	38,403,489	14	35,801,279	16
Cost method	12,931,119	5	7,593,932	3
Total long-term stock investments	51,334,608	19	43,395,211	19
Prepaid long-term stock investments	13,230,426	5	-	-
Other	206,618	-	185,411	-
Total long-term investments	64,771,652	24	43,580,622	19
PROPERTIES (Notes 2, 8 and 21)				
Land	7,712,475	3	7,146,632	3
Land improvements	4,231,666	2	4,275,382	2
Buildings and improvements	36,028,949	13	36,487,450	16
Machinery and equipment	212,832,259	77	212,409,952	91
Transportation equipment	1,526,533	1	1,566,834	1
Miscellaneous equipment	3,046,602	1	3,055,325	1
Total cost	265,378,484	97	264,941,575	114
Appreciation	17,687,139	6	17,899,629	8
Total cost and appreciation	283,065,623	103	282,841,204	122
Less: Accumulated depreciation	195,054,028	71	187,399,759	81
	88,011,595	32	95,441,445	41
Constructions in progress and prepayments for land	13,139,455	5	4,692,284	2
Net properties	101,151,050	37	100,133,729	43
OTHER ASSETS				
Rental assets-net (Notes 2 and 9)	3,081,401	1	3,109,022	2
Refundable deposits	220,919	-	70,620	-
Restricted assets - pledged time deposits (Note 21)	31,694	-	31,694	-
Unamortized repair costs and others (Note 2)	86,316	-	354,534	-
Total other assets	3,420,330	1	3,565,870	2
TOTAL	$ 274,570,910	100	$ 231,769,434	100

	2005		2004	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 10, 20 and 21)	$ 9,687,490	4	$ 2,662,696	1
Commercial paper payable (Note 11)	-	-	1,899,318	1
Notes and accounts payable (Note 20)	2,748,750	1	2,276,540	1
Income tax payable (Note 17)	9,668,220	3	6,076,886	3
Accrued expenses (Note 2)	6,416,155	2	5,604,012	2
Dividends payable (Note 16)	38,907,367	14	28,656,319	12
Bonds payable - current portion (Note 12)	10,000,000	4	2,250,000	1
Other	4,314,595	2	2,382,462	1
Total current liabilities	81,742,577	30	51,808,233	22
LONG-TERM LIABILITIES				
Bonds payable, net of current portion (Note 12)	5,000,000	2	15,000,000	6
Bank loans (Notes 13 and 20)	3,582,500	1	2,175,600	1
Total long-term liabilities	8,582,500	3	17,175,600	7
RESERVE FOR LAND VALUE INCREMENT TAX (Note 8)	2,171,124	1	3,370,813	2
OTHER LIABILITIES				
Deferred income tax liabilities (Note 17)	3,018,718	1	3,042,731	1
Deferred credits - gain on intercompany transactions (Note 15)	1,148,442	-	1,408,966	1
Total other liabilities	4,167,160	1	4,451,697	2
Total liabilities	96,663,361	35	76,806,343	33
STOCKHOLDERS' EQUITY (Notes 2,7,8 and 16)				
Capital stock - authorized 10,600,000 thousand shares at NT$10 par value				
Common shares - issued 9,890,400 thousand and 9,452,324 thousand as of June 30, 2005 and 2004, respectively	98,903,998	36	94,523,237	41
Preferred shares - issued 40,714 thousand and 47,762 thousand as of June 30, 2005 and 2004, respectively	407,140	-	477,620	-
Total capital stock	99,311,138	36	95,000,857	41
Capital surplus	2,398,575	1	707,995	-
Retained earnings	78,836,214	29	60,934,860	26
Other equity items				
Unrealized loss on investees' long-term investments	(446,463)	-	(484,390)	-
Cumulative translation adjustments	(525,262)	-	2,123	-
Investees' unrecognized net loss on pension cost	(31,578)	-	(21,651)	-
Total other equity items	(1,003,303)	-	(503,918)	-
Treasury stock – 105,288 thousand and 86,273 thousand shares as of June 30, 2005 and 2004, respectively	(1,635,075)	(1)	(1,176,703)	-
Total stockholders' equity	177,907,549	65	154,963,091	67
TOTAL	$ 274,570,910	100	$ 231,769,434	100

The accompanying notes are an integral part of the financial statements.

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005		2004	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 2 and 20)	$ 99,003,245	100	$ 76,144,352	100
COST OF REVENUES (Notes 18 and 20)	56,033,541	56	48,146,676	63
GROSS PROFIT	42,969,704	44	27,997,676	37
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	702,785	1	1,100	-
REALIZED GROSS PROFIT	42,266,919	43	27,996,576	37
OPERATING EXPENSES (Notes 18 and 20)				
Selling	1,157,588	1	1,058,279	1
General and administrative	1,350,702	1	1,125,828	2
Research and development	549,076	1	476,349	1
Total operating expenses	3,057,366	3	2,660,456	4
OPERATING INCOME	39,209,553	40	25,336,120	33
NONOPERATING INCOME AND GAINS				
Interest	260,077	-	72,305	-
Investment income under the equity method (Note 7)	3,637,387	4	3,486,381	5
Other	996,355	1	876,344	1
Total nonoperating income and gains	4,893,819	5	4,435,030	6
NONOPERATING EXPENSES AND LOSSES				
Interest	354,210	-	584,402	1
Impairment loss on long-term investment (Note 7)	906,000	1	-	-
Impairment loss on rental assets (Note 9)	-	-	594,000	1
Other	590,276	1	297,496	-
Total nonoperating expenses and losses	1,850,486	2	1,475,898	2
INCOME BEFORE INCOME TAX	42,252,886	43	28,295,252	37
INCOME TAX (Notes 2 and 17)	9,467,585	10	5,696,417	7
NET INCOME	$ 32,785,301	33	$ 22,598,835	30

(Continued)

	2005		2004	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (Note 19)				
Basic	$ 4.31	$ 3.35	$ 2.88	$ 2.30
Diluted	$ 4.30	$ 3.34	$ 2.88	$ 2.30

PRO FORMA INFORMATION - if the Corporation's shares held by subsidiaries had been accounted for as investments rather than treasury stock

	2005		2004	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
Net Income	$32,815,979		$22,598,835	
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 9,890,400 thousand and 9,883,316 thousand as of June 30, 2005 and 2004, respectively	$ 4.27	$ 3.32	$ 2.86	$ 2.28
Diluted earnings per share based on weighted-average number of outstanding common stock shares aggregating 9,931,114 thousand and 9,931,078 thousand as of June 30, 2005 and 2004, respectively	$ 4.26	$ 3.30	$ 2.85	$ 2.28

The accompanying notes are an integral part of the financial statements. (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY*
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock		Capital Surplus	Retained Earnings				Unrealized Loss on Investees' Long-term Investments	Cumulative Translation Adjustments (Notes 2 and 7)	Investees' Unrecognized Net Loss on Pension Cost	Treasury Stock (Notes 2 and 16)	Total Stockholders' Equity
	Common Stock	Preferred Stock	(Notes 8 and 16)	Legal Reserve	Special Reserve	Unappro-priated	Total					
BALANCE, JANUARY 1, 2005	$ 98,889,368	$ 421,770	$ 1,172,320	$ 25,452,594	$ 8,030,816	$ 52,159,008	$ 85,642,418	$ (454,039)	$ (365,599)	$ (32,003)	$ (1,113,121)	$ 184,161,114
Conversion of preferred shares to common shares	14,630	(14,630)	-	-	-	-	-	-	-	-	-	-
Appropriation of 2004 earnings (Note 16)												
Legal reserve	-	-	-	5,161,667	-	(5,161,667)	-	-	-	-	-	-
Special reserve	-	-	-		436,524	(436,524)	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(138,243)	(138,243)	-	-	-	-	(138,243)
Bonus to employees – cash	-	-	-	-	-	(714,035)	(714,035)	-	-	-	-	(714,035)
Preferred cash dividends - 39%	-	-	-	-	-	(158,785)	(158,785)	-	-	-	-	(158,785)
Common cash dividends - 39%	-	-	-	-	-	(38,572,559)	(38,572,559)	-	-	-	-	(38,572,559)
Net income in the six months ended June 30, 2005	-	-	-	-	-	32,785,301	32,785,301	-	-	-	-	32,785,301
Adjustment for reserve for land value increment tax (Note 8)	-	-	1,196,189	-	-	-	-	-	-	-	-	1,196,189
Investees' unrecognized net loss on pension cost	-	-	-	-	-	-	-	-	-	425	-	425
Adjustment of equity in investees due to change in percentage of ownership	-	-	(988)	-	-	(7,883)	(7,883)	-	(159,663)	-	(546,153)	(714,687)
Disposal of the Corporation's shares held by subsidiaries	-	-	31,054	-	-	-	-	7,576	-	-	24,199	62,829
BALANCE, JUNE 30, 2005	$ 98,903,998	$ 407,140	$ 2,398,575	$ 30,614,261	$ 8,467,340	$ 39,754,613	$ 78,836,214	$ (446,463)	$ (525,262)	$ (31,578)	$ (1,635,075)	$ 177,907,549
BALANCES, JANUARY 1, 2004	$ 94,523,237	$ 477,620	$ 693,047	$ 21,767,286	$ 8,002,165	$ 37,165,249	$ 66,934,700	$ (485,104)	$ 91,700	$ (21,711)	$ (1,176,705)	$ 161,036,784
Appropriation of 2003 earnings (Note 16)												
Legal reserve	-	-	-	3,685,308	-	(3,685,308)	-	-	-	-	-	-
Special reserve	-	-	-	-	28,651	(28,651)	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(98,526)	(98,526)	-	-	-	-	(98,526)
Preferred cash dividends - 30%	-	-	-	-	-	(143,286)	(143,286)	-	-	-	-	(143,286)
Common cash dividends - 30%	-	-	-	-	-	(28,356,863)	(28,356,863)	-	-	-	-	(28,356,863)
Net income in the six months ended June 30, 2004	-	-	-	-	-	22,598,835	22,598,835	-	-	-	-	22,598,835
Reversal of unrealized loss on investees' long-term investments	-	-		-	-	-	-	714	-	-	-	714
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	(89,577)	-	-	(89,577)
Reversal of investees' unrecognized net loss on pension cost	-	-	-	-	-	-	-	-	-	60	-	60
Adjustment of equity in investees due to change in percentage of ownership	-	-	14,948	-	-	-	-	-	-	-	2	14,950
BALANCES, JUNE 30, 2004	$ 94,523,237	$ 477,620	$ 707,995	$ 25,452,594	$ 8,030,816	$ 27,451,450	$ 60,934,860	$ (484,390)	$ 2,123	$ (21,651)	$ (1,176,703)	$ 154,963,091

* Additional explanations for stockholders' equity accounts is appended.

The accompanying notes are an integral part of the financial statements.

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 32,785,301	$ 22,598,835
Adjustments		
Depreciation	4,813,926	5,076,253
Amortization	83,723	165,665
Deferred income tax	(86,374)	(238,868)
Impairment loss on rental assets	-	594,000
Reversal of allowance for loss on inventories	(5,133)	(5,000)
Gains on disposal of investments	(373,786)	(248,203)
Investment income under the equity method	(3,637,387)	(3,486,381)
Cash dividends from long-term investments under the equity method	3,831,602	518,960
Construction dividends from long-term investments under the cost method	-	15,616
Impairment loss on long-term investments under the cost method	906,000	-
Unrealized gain on intercompany transactions	702,785	1,100
Effect of exchange rate changes on foreign-currency long-term debts	(224,480)	(49,700)
Others	98,202	32,753
Net cash provided by adjusted net income	38,894,379	24,975,030
Net changes in operating assets and liabilities		
Notes receivable	(300,792)	(839,350)
Accounts receivable	(728,296)	(1,646,197)
Other receivables	(364,298)	(55,738)
Inventories	(2,875,746)	(3,773,222)
Other current assets	(632,961)	101,893
Notes and accounts payable	(337,590)	(15,894)
Income tax payable	263,155	(462,847)
Accrued expenses	(599,144)	(285,812)
Other current liabilities	58,168	44,440
Net cash provided by operating activities	33,376,875	18,042,303
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	10,579,619	(4,094,603)
Increase in long-term investments	(17,488,923)	(172,100)
Proceeds from disposal of long-term investments	23,457	1,403,797
Decrease in pledged time deposits	100,000	800,000
Acquisition of properties	(6,789,268)	(3,335,795)
Proceeds from disposal of properties	89,051	-
Increase in other assets	(169,083)	(27,194)
Net cash used in investing activities	(13,655,147)	(5,425,895)

(Continued)

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank loans and overdraft	$ 5,221,531	$ (1,946,774)
Increase in long-term loans	945,780	-
Repayments of long-term bank loans	-	(50,000)
Repayments of bonds payable	-	(7,750,000)
Increase (decrease) in commercial paper payable	(1,799,052)	200,104
Cash dividends	(182,466)	-
Others	-	(8,127)
Net cash provided by (used in) financing activities	4,185,793	(9,554,797)
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,907,521	3,061,611
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	26,402,765	3,862,720
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 50,310,286	$ 6,924,331
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 255,448	$ 686,475
Income tax paid	9,290,804	6,398,135
PURCHASE OF PROPERTIES		
Acquisition of properties	$ 6,952,452	$ 3,133,862
Decrease (increase) in payable on properties purchased	(163,184)	201,933
	$ 6,789,268	$ 3,335,795
NONCASH FINANCING ACTIVITIES		
Cash dividends payable	$ 38,731,344	$ 28,500,149
Payable for remuneration to directors and supervisors and bonus to employees	$ 852,278	$ 98,526

The accompanying notes are an integral part of the financial statements. (Concluded)

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Amounts Stated Otherwise, Earnings and Dividends Per Share)

1. ORGANIZATION AND OPERATIONS

China Steel Corporation (the "Corporation") was incorporated in December 1971. It manufactures and sells steel products and engages in machinery and communications engineering and construction.

The Corporation's stock is listed on the Taiwan Stock Exchange. As of June 30, 2005, the Ministry of Finance (formerly the Ministry of Economic Affairs), Republic of China owned 23.4% of the Corporation's outstanding common stock.

As of June 30, 2005 and 2004, the Corporation had about 8,600 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and standards, the Corporation is required to make certain estimates and assumptions on recorded assets, liabilities, revenues and expenses, including those related to doubtful accounts, inventory loss, depreciation of properties, impairment loss on assets, pension and loss on lawsuits. Actual results could differ from these estimates.

For the convenience of readers, accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include the English translation of additional disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the Securities and Futures Commission before July 1, 2004) for their oversight purposes.

The Corporation's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash and cash equivalents and other assets to be realized in cash or to be consumed within one year from the balance sheet date. Liabilities to be settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

Assets and liabilities related to contracted projects are classified as current or noncurrent on the basis of their respective business cycles.

Cash Equivalents

Cash equivalents are short-term notes and bills with maturities of three months or less.

Short-term Investments

Short-term investments are bond funds, bank debentures, commercial paper sold under repurchase agreements, negotiable certificates of time deposit with maturities of three months or more, and stocks listed on the Taiwan Stock Exchange, which are not intended for long-term holding. These investments are stated at the lower of total cost or market value. If market value falls below carrying value, the decline is charged to loss, and an allowance for investment loss is provided. If market price recovers, the allowance will be reversed to the extent of the recovery up to cost. Cost is determined by the first-in, first-out method for bond funds; moving-average method for listed stocks; and specific identification method for commercial paper sold under repurchase agreements, bank debentures and negotiable certificates of time deposit with maturities of three months or more. Market value is the net asset value of bond funds on the balance sheet date, the average closing price of listed stocks in the last month of the reporting period, the quotation price by financial institution of bank debentures and the book value for negotiable certificates of time deposit and commercial paper sold under repurchase agreements.

Stock dividends received from investees are not recorded as investment income but as an increase in shares. The carrying value per share is recalculated on the basis of total shares owned after the stock dividends are received. Cash dividends within a year of investment acquisition are accounted for as a reduction of the carrying value of the investment but are subsequently accounted for as dividend income.

Factoring of Accounts Receivable

The following three conditions must be met to recognize factoring of accounts receivable:

a. The accounts receivable have been legally isolated from the Corporation and its creditors.

b. The transferees have obtained the right to pledge or exchange accounts receivable, which are either the transferred accounts receivable or beneficial interest in the transferred assets.

c. The transferor does not maintain effective control, through an agreement to repurchase or redeem the transferred accounts receivable before their maturity, over the transferred accounts receivable.

If the three conditions are met, the difference between the proceeds and the face value of the accounts receivable is recognized as a loss and recorded as nonoperating expenses.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of aging accounts and the collectibility of receivables.

Inventories

Inventories are raw materials, supplies, fuel, finished products, work in process, by-products and construction in progress. Inventories, except for construction in progress, are stated at the lower of total moving-average cost or market value. Market value is the net realizable value for finished products, work in process, by-products and construction in progress, and replacement costs for raw materials, supplies and fuel. Construction projects exceeding one year are valued under the percentage-of-completion method, and construction in progress is stated at the costs incurred plus (less) the estimated gain (loss). If the contracts are expected to incur loss, the loss is recorded in the same period. Construction in progress in excess of advance collections is included in current assets, while advance collections in excess of construction in progress are included in current liabilities.

Long-term Investments

Long-term stock investments in which the Corporation owns 20% or more of the outstanding voting shares or where the Corporation has significant influence on the investees are accounted for by the equity method. When the equity method is first applied or when a stock is acquired, the difference between the carrying value of an investment and the proportionate equity in the investee is amortized over five years. The long-term investments recorded under the equity method were previously based on the investees' financial statements less than three months from balance sheet date. Starting 2005, the investment income or loss is recognized on the basis of the investees' financial statements for the accounting period as the same as that of the Corporation. If an investee issues additional shares and the Corporation acquires shares at a percentage different from its current equity in the investee, capital surplus is adjusted for the difference between the carrying values of the investments and the Corporation's equity in the investees' net assets. If the carrying value is less than equity in net assets, the difference is credited to capital surplus. If the carrying value is more than equity in net assets, the difference is debited to capital surplus, or to unappropriated earnings when capital surplus is not enough for debiting purposes. If the market prices of investees significantly decline below carrying value and the decline is permanent, the investment loss should be recognized as realized loss in the same year of the decline. This investment will be revaluated if an investee's market value becomes higher than book value per share. The difference between the new cost of the investment and the proportionate equity in the investee is amortized over five years.

Other investments are accounted for by the cost method. If evidence indicates that the market value of investments has significantly declined permanently below carrying value, the decline should be recognized as a realized investment loss. The previous carrying value less the amount of write-down becomes the new cost basis for such investments. Cash dividends received from an investee within a year of the investment acquisition date and an accumulation of cash dividends received that exceed the previous year-end retained earnings after the year of investment acquisition are recorded as a reduction of investment cost and are recorded in subsequent years as investment income. Construction dividends are recorded as a reduction of investment cost.

For both equity-method and cost-method investments, the cost of investment sold is calculated by the weighted-average method.

Properties

Properties are stated at cost or at cost plus appreciation, less accumulated depreciation. Interest expense for the purchase or construction of properties is capitalized as property cost. Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

Depreciation is calculated by the straight-line method over service lives estimated as follows: land improvements, 10 to 40 years; buildings and improvements, 5 to 60 years; machinery and equipment, 4 to 25 years; transportation equipment, 3 to 25 years; and miscellaneous equipment, 3 to 10 years. Depreciation on appreciation is calculated by the straight-line method over the remaining service lives of the reevaluated assets. When a property reaches its residual value but is still in use, its residual value is depreciated over its reestimated service life.

Upon sale or other disposal of properties, the related cost, appreciation and accumulated depreciation are removed from the accounts. Gains or losses are credited or charged to current income.

Rental Assets

Rental assets (included in other assets) are stated at the lower of carrying value or recoverable value.

Asset Impairment

Assets (primarily properties and long-term investments under the equity method) are evaluated on the basis of their recoverable value starting January 1, 2005. If the recoverable value is less than the carrying value of the assets, the decline is charged to impairment loss and accumulated impairment loss is recognized. If the value of the impaired assets recovers, the accumulated impairment loss will be reversed. However, the loss reversal is only to the extent that the increased carrying amount of an asset would not exceed the asset carrying amount (net of depreciation) had no impairment loss been recognized in prior years.

Unamortized Repair Costs

Unamortized repair costs refer to the major repairs of blast furnaces and are amortized over five years.

Treasury Stock

The Corporation reacquired its issued shares in accordance with government regulations and treated this reacquisition as treasury stock at cost, which is presented as a deduction to arrive at stockholders' equity.

Effective 2002, the Corporation's shares acquired and held by subsidiaries are reclassified to treasury stock from long-term investments and accounted for at the carrying value recorded by subsidiaries for short-term or long-term investments as of January 1, 2002.

Effective 2005, the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements", requires that equity-method investees that are not majority owned but over which the Corporation has controlling capability in substance are deemed as subsidiaries. Thus, the Corporation's shares held by these investees are treated as treasury stock.

Revenue Recognition

Revenues are recognized when titles to products and risks of ownership are transferred to customers as follows: domestic sales - when products are delivered out of the Corporation's premises to customers; exports - when products are loaded onto vessels.

Sales are measured at fair value, which is a price (net of trade discounts and sales discounts) agreed to by the Corporation and its customers. But if the related receivable is due within one year, the difference between its present value and receivable amount is immaterial and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

Pension

Pension costs are recognized on the basis of actuarial calculations. The difference between the actuarial pension cost and the amount appropriated to a special fund (Note 14) is recognized as accrued pension liability (included in accrued expenses). Unamortized net transition assets and actuarial gains or loss are amortized over 11 years and the average remaining service life of employees, respectively.

Income Tax

The Corporation uses inter-period allocation in accounting for income tax. Tax effects of deductible temporary differences are recognized as deferred income tax assets. Valuation allowance is provided for deferred tax assets with uncertain realizability. Tax effects of taxable temporary differences are recognized as deferred tax liabilities. A deferred tax asset or liability is classified as current or noncurrent depending on the classification of the related asset or liability for financial reporting. But if the deferred income tax asset or liability cannot be related to an asset or liability for financial reporting, the classification is based on the expected reversal or realization date of the temporary difference.

Tax credits for certain purchases of equipment, research and development, employees' training, and investment in newly emerging, important and strategic industries are recognized when those credits are granted.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax expense.

Annual earnings are appropriated under a resolution adopted in the stockholders' meeting in the year following the year of earnings generation. Under tax regulations, unappropriated earnings generated after 1998 are subject to 10% income taxes. These taxes are recorded as expenses in the year when the stockholders resolve to retain the earnings.

Foreign-currency Transactions

Foreign-currency transactions, except derivative transactions, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing exchange rate when foreign-currency assets and liabilities are settled or converted, are credited or charged to income in the year of settlement or conversion. On the balance sheet date, foreign-currency assets and liabilities are restated at the prevailing exchange rates, and resulting differences are accounted for as follows:

a. Equity-method stock investments - as cumulative translation adjustments under stockholders' equity;

b. Cost-method stock investments - same as (a) above if restated balances are lower than their costs; otherwise, no adjustment is made;

c. Other assets and liabilities - as credits or charges to current income.

3. CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	$ 18,605	$ 18,465
Checking accounts and demand deposits	2,384,422	935,350
Time deposits	14,202,132	450,000
Cash equivalents - short-term notes and bills	33,705,127	5,520,516
	$ 50,310,286	$ 6,924,331

As of June 30, 2005, the Corporation has cash deposits of $221 thousand (￥774 thousand) in Japan-Osaka.

4. SHORT-TERM INVESTMENTS

	2005	2004
Bond funds	$ 11,631,459	$ 41,792,723
Stocks listed	967,456	967,456
Negotiable certificates of time deposits	500,000	-
Commercial paper sold under repurchase agreements	300,062	200,021
Bank debentures	250,700	-
	$ 13,649,677	$ 42,960,200

5. NOTES AND ACCOUNTS RECEIVABLE

The Corporation sold its notes and accounts receivable in 2005 and 2004. The related information is as follows:

Transaction Counter-party	Amount	Related Expenses	Proceeds Received	Interest Rate (%)	Facilities (billion)
2005					
Notes receivable					
Chung Hsing Bills Finance Corporation	$ 1,581,059	$ 9,376	$ 1,571,683	1.70~1.95	$ 2.5
Accounts receivable					
International Commercial Bank of China	2,992,352	19,510	2,972,842	1.64~1.95	3.0
Bank of Taiwan	1,516,742	10,303	1,506,439	1.64~3.83	2.3
	4,509,094	29,813	4,479,281		
	$ 6,090,153	$ 39,189	$ 6,050,964		
2004					
Notes receivable					
Mentor Consulting Corporation	$ 442,559	$ 2,771	$ 439,788	1.908	$ -
Chung Hsing Bills Finance Corporation	1,403,119	7,212	1,395,907	1.64~1.07	2.5
	1,845,678	9,983	1,835,695		
Accounts receivable					
International Commercial Bank of China	2,658,924	14,965	2,643,959	1.58~1.70	3.0
	$ 4,504,602	$ 24,948	$ 4,479,654		

The above-mentioned credit lines are revolving in use.

The Corporation guaranteed the notes receivable sold to Chung Hsing Bills Finance Corporation (Note 22). Other receivables were sold without recourse.

6. INVENTORIES

	2005	2004
Finished products	$ 4,904,862	$ 4,627,964
Work in process	8,678,379	6,718,257
Raw materials	7,764,918	4,482,478
Supplies	4,691,276	4,302,030
Fuel	82,910	91,880
Materials in transit and others	2,667,136	2,902,057
Others	125,942	51,007
	28,915,423	23,175,673
Less: Allowance for losses	159,556	164,689
	$ 28,755,867	$ 23,010,984

7. **LONG-TERM INVESTMENTS**

	2005		2004	
	Amount	**% of Owner-ship**	**Amount**	**% of Owner-ship**
Stocks - equity method				
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC, formerly Yieh Loong Enterprises)	$ 2,308,110	24	$ 1,618,933	24
China Steel Chemical Corporation (CSCC)	934,346	30	878,135	30
China Hi-ment Corporation (CHC)	551,896	20	503,175	20
China Steel Structure Corporation (CSSC)	461,499	18	454,264	18
China Ecotek Corporation (CEC)	387,543	36	371,197	36
	4,643,394		3,825,704	
Less: Shares held by subsidiaries accounted for as treasury stock	326,068		192	
	4,317,326		3,825,512	
Stocks with no quoted market prices				
C. S. Aluminum Corporation (CAC)	6,665,590	98	6,535,043	98
China Steel Express Corporation (CSE)	6,442,966	100	6,268,624	100
Gains Investment Corporation (GIC)	5,630,048	100	4,982,121	100
China Prosperity Development Corporation (CPDC)	4,763,682	100	4,770,853	100
Kaohsiung Rapid Transit Corporation (KRTC)	3,195,392	31	3,093,470	31
China Steel Asia Pacific Holdings Pte. Ltd. (CSAPH)	2,926,722	100	2,756,418	100
Dragon Steel Corporation (DSC, formerly Kuei Yi Industrial)	1,612,101	37	1,073,414	35
Goang Yaw Investment Corporation and other two companies	1,574,126	99	1,147,906	99
China Steel Global Trading Corporation (CSGT)	932,084	100	965,878	100
China Steel Machinery Corporation (CSMC)	768,931	100	686,050	100
Info-Champ Systems Corporation (ICSC)	498,434	99	483,595	99
China Steel Security Corporation (CSS)	221,602	100	216,952	100
Taiwan Rolling Stock Co., Ltd. (TRSC)	154,615	27	158,864	27
China Steel Management Consulting Corporation (CSMCC)	6,196	38	6,230	38
TaiAn Technologies Corporation (TTC)	2,681	17	6,344	17
Hi-mag Magnetic Corporation (HMC)	-	50	-	50
	35,395,170		33,151,762	
Less: Shares held by subsidiaries accounted for as treasury stock	1,309,007		1,175,995	
	34,086,163		31,975,767	
	38,403,489		35,801,279	
Stocks - cost method				
Listed stocks				
Maruichi Steel Tube Ltd.	757,920	2	757,919	2
Advanced Material Technology Corporation (AMTC)	243,290	2	243,290	2
Common stocks with no quoted market prices				
Industrial Bank of Taiwan	1,000,000	4	1,000,000	4

(Continued)

	2005		2004	
	Amount	% of Owner-ship	Amount	% of Owner-ship
CDIB & Partners Investment Holding Corporation	$ 500,000	5	$ 500,000	5
Asia Pacific Broadband Telecom Co., Ltd. (APBT, formerly Eastern Broadband Telecommunications)	240,000	2	1,200,000	2
Kaohsiung Arena Development Corporation (KADC)	135,000	18	-	-
CDIB Bio Science Ventures I, Inc.	120,000	5	120,000	5
Phalanx Biotech Group (PBG)	105,370	15	105,370	15
Overseas Investment & Development Corporation	50,000	6	50,000	6
CTB I Venture Capital Co., Ltd.	50,000	5	50,000	5
GenMont Biotech Inc. (GMB)	31,337	8	55,269	15
Tang Eng Iron Works Corporation (TEIWC)	-	9	-	9
Preferred stocks with no quoted market prices				
Taiwan High Speed Rail Corporation (THSRC)	4,699,941	27	-	-
East Asia United Steel Corporation (EAUS)	2,864,000	29	1,377,823	33
Dragon Steel Corporation	999,877	100	999,877	100
Taiwan High Speed Rail Corporation (THSRC)	984,384	4	984,384	4
Taigen Biotechnology Co., Ltd (TBC)	150,000	24	150,000	24
	12,931,119		7,593,932	
Prepaid long-term stock investments				
Dragon Steel Corporation	13,230,426		-	
Fund				
Sino-Canada Biotechnology Development Fund, LP（SCBDF）	206,618		185,411	
	$ 64,771,652		$ 43,580,622	

The market values of listed stocks based on the average closing prices in June are summarized as follows:

	2005	2004
Listed stocks - equity method		
CHSC	$ 4,312,631	$ 3,697,658
CSCC	2,922,435	2,645,692
CHC	995,586	638,358
CSSC	421,637	412,268
CEC	347,352	288,297
	$ 8,999,641	$ 7,682,273
Listed stocks - cost method		
Maruichi Steel Tube Ltd.	$ 1,353,526	$ 1,061,640
AMTC	248,772	381,988
	$ 1,602,298	$ 1,443,628

As of June 30, 2005 and 2004, the Corporation's total equity in CHSC was 39.3%: directly owned – 23.7% and indirectly owned – 15.6%. The Corporation's total equity in TTC was 22%: directly owned - 17% and indirectly owned - 5%.

In November 2004, the Corporation increased its investment in GIC for $500,000 thousand, with its equity unchanged.

In 2004, the Corporation's holdings in DSC rose from 35% to 37% because DSC declared stock dividends on its preferred stock owned by the Corporation . In June 2005, the Corporation increased its investment in DSC by 980,032 thousand shares for $13,230,426 thousand, which was recorded under prepaid long-term stock investments.

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of East Asia United Steel Corporation (EAUS) was established. As of June 30, 2005, the Corporation had invested in EAUS $3,055,188 thousand (￥10 billion, Note 13). In June 2005, the Corporation's equity in EAUS decreased from 33% to 29% because EAUS issued additional shares but the Corporation did not subscribe proportionately for these shares. The long-term investment is valued under cost method because the Corporation has no significant influence on EAUS. Because of changes in exchange rate, $179,004 thousand in cumulative translation adjustments was recorded to reduce stockholders' equity (the Corporation has borrowed the same amount of long-term bank loans in yen to hedge exchange rate fluctuations; Note 13). The Corporation will have a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with CHSC to transfer the purchasing right of slabs from EAUS. The Corporation will receive premiums on this contract based on the volume purchased by CHSC.

In June 2005, the Corporation sold its holdings in GMB of 1,962 thousand shares, resulting in a loss of $475 thousand. Thus, the Corporation's equity in GMB decreased to 8%. All of the remaining GMB shares were sold on July 13, 2005.

In April 2005 and August 2004, the Corporation acquired 505,370 thousand preferred shares of THSRC for $3,199,944 thousand and $1,499,997 thousand, respectively. These shares, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and 0% in the next two years. At the end of the four year (ie, in 2009 and 2008), if the Corporation has not converted the preferred shares into common shares and the THSRC cannot redeem the shares, the unredeemed shares have 4.71% dividends. THSRC builds and operates public transportation systems. The long-term investment is accounted for by cost method because the Corporation's shares have no voting rights.

In March 2004, the Corporation acquired 10,000 thousand preferred shares of TBC for $150,000 thousand. Preferred shareholders are entitled to 8% participating and noncumulative dividends as well as voting and election rights. TBC mainly researches and develops drugs. The long-term investment is accounted for by cost method because the Corporation has no significant influence on the investee.

The Corporation promised to invest in 100 units (10,000 thousand Canadian dollars) of the SCBDF fund. As of June 30, 2005, the Corporation had acquired 94.35% of the SCBDF fund for $219,025 thousand (C$9,435 thousand).

In 2005, the Corporation recognized an impairment loss of $906,000 thousand (recorded as nonoperating expense) on its investment in APBT.

In March 2005 and November 2004, the Corporation acquired 13,500 thousand shares of KADC for $45,000 thousand and $90,000 thousand, respectively. The Corporation expects to invest in KADC a total of $270,000 thousand. KADC mainly engages in international trading, retailing and gymnasium development.

The Corporation's Board of Directors approved plans for additional investments of up to $28,383,619 thousand in DSC, EAUS, THSRC, TRSC, CPDC, KADC, etc. The related investment implementation schedule depends on the investees' capital increase requirements. As of June 30, 2005, the Corporation had infused capital of $23,573,461 thousand in these investees.

Investment income (loss) under the equity method was as follows:

	2005	2004
CSE	$ 1,435,918	$ 1,425,485
CHSC	521,903	421,625
Goang Yaw Investment Corporation and two other subsidiaries	268,306	330,641
CSAPH	219,279	314,433
GIC	191,325	160,428
CSSC	181,880	6,119
CSGT	179,053	248,897
CAC	163,064	238,240
CSCC	150,670	153,887
DSC	96,786	124,049
CSMC	73,395	274
CHC	66,383	46,711
ICSC	37,096	37,771
CEC	23,778	9,402
KRTC	18,846	(24,697)
CSS	13,481	10,616
CPDC	2,850	963
CSMCC	1,792	2,321
TTC	362	(1,284)
TRSC	(8,780)	(4,107)
PBG	-	(15,393)
	$ 3,637,387	$ 3,486,381

The calculation of the above investment income (loss) was based on the investees' audited financial statements.

The subsidiaries' financial statements are consolidated in any of the following situations:

a. Direct holding by the Corporation of an investee's shares is more than 50%.

b. Direct and indirect holdings by the Corporation of an investee's shares are more than 50% (CSMCC).

c. The number of an investee's board of directors' seats held by the Corporation is more than 50% (CHSC, CSCC, CEC and DSC).

d. The board chairman and the president of the investee are assigned by the Corporation (CHC and CSSC).

8. PROPERTIES

	Cost	Appreciation	Total
June 30, 2005			
Cost and appreciation			
Land	$ 7,712,475	$ 5,840,732	$ 13,553,207
Land improvements	4,231,666	492,990	4,724,656
Buildings and improvements	36,028,949	2,425,010	38,453,959
Machinery and equipment	212,832,259	8,862,195	221,694,454
Transportation equipment	1,526,533	33,748	1,560,281
Miscellaneous equipment	3,046,602	32,464	3,079,066
	265,378,484	17,687,139	283,065,623
Accumulated depreciation			
Land improvements	3,046,606	416,141	3,462,747
Buildings and improvements	14,933,639	1,595,124	16,528,763
Machinery and equipment	162,573,040	8,857,622	171,430,662
Transportation equipment	1,236,202	33,722	1,269,924
Miscellaneous equipment	2,329,483	32,449	2,361,932
	184,118,970	10,935,058	195,054,028
Constructions in progress	13,139,455	-	13,139,455
	$ 94,398,969	$ 6,752,081	$ 101,151,050
June 30, 2004			
Cost and appreciation			
Land	$ 7,146,632	$ 5,850,597	$ 12,997,229
Land improvements	4,275,382	492,990	4,768,372
Buildings and improvements	36,487,450	2,445,500	38,932,950
Machinery and equipment	212,409,952	9,042,532	221,452,484
Transportation equipment	1,566,834	33,797	1,600,631
Miscellaneous equipment	3,055,325	34,213	3,089,538
	264,941,575	17,899,629	282,841,204
Accumulated depreciation			
Land improvements	2,954,708	404,101	3,358,809
Buildings and improvements	14,208,621	1,548,326	15,756,947
Machinery and equipment	155,584,498	9,033,452	164,617,950
Transportation equipment	1,208,864	33,750	1,242,614
Miscellaneous equipment	2,389,244	34,195	2,423,439
	176,345,935	11,053,824	187,399,759
Constructions in progress	4,692,284	-	4,692,284
	$ 93,287,924	$ 6,845,805	$ 100,133,729

In 1981 and 1994, the Corporation revalued its properties and patents in accordance with government regulations, resulting in a revaluation increment of $17,662,343 thousand. After the deduction of the reserve for land value increment tax of $3,370,813 thousand, a net increment of $14,291,530 thousand was credited to capital surplus. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax and the increase in capital surplus from revaluation increment decreased by $1,196,189 thousand each. In 2005, the Corporation decreased $3,500 thousand reserve for land value increment tax resulting from selling some of its land. As of June 30, 2005, the reserve for land value increment tax was $2,171,124 thousand.

9. RENTAL ASSETS

	2005	2004
Land - at cost	$ 2,966,398	$ 2,966,398
Machinery and equipment - at cost	2,000,000	2,000,000
Less: Accumulated depreciation	1,290,997	1,263,376
Accumulated impairment loss	594,000	594,000
	115,003	142,624
	$ 3,081,401	$ 3,109,022

The Corporation has leased to its subsidiaries some of its plant property and machinery acquired through a loan from the National Defense Industrial Development Fund (Note 20).

The Corporation recognized an impairment loss of $594,000 thousand on the rental machinery and equipment, based on estimated future rental income. This loss was included in nonoperating losses for the six months ended June 30, 2004.

10. SHORT-TERM BANK LOANS AND OVERDRAFT

	2005	2004
Advance for letters of credit - due within 180 days; interest at 0.24%-6.038% p.a. and0.23%-5.42% p.a. as of June30, 2005 and 2004, respectively	$ 1,571,664	$ 266,760
Bank overdraft - interest at 0.9%-2.52% p.a. and 0.8%-2.3% p.a. as of June 30, 2005 and 2004, respectively	1,546,720	1,365,936
Short-term loans from related parties (Note 20)	569,106	-
Credit loans from banks - interest at 1.264%-1.265% p.a. and 0.973%-1.05% p.a. as of June 30, 2005 and 2004, respectively	6,000,000	1,030,000
	$ 9,687,490	$ 2,662,696

As of June 30, 2005 and 2004, the Corporation provided banks with $4,600,000 thousand and $4,100,000 thousand, respectively, in certificates of time deposits to guarantee bank overdraft.

11. COMMERCIAL PAPER PAYABLE

	2004
Commercial paper – 0.75%-0.79% interest rates p.a. as of June 30, 2004	$ 1,900,000
Unamortized discounts	(682)
	$ 1,899,318

12. LONG-TERM BONDS PAYABLE

	2005	2004
5-year unsecured bonds - issued at par in:		
November 2001; repayable in November 2006; 3.1% interest p.a., payable annually	$ 3,500,000	$ 3,500,000
November 2001; repayable in November 2006; 3.0763% interest p.a., compounded semiannually and payable annually	1,500,000	1,500,000
June 2001; repayable in June 2006; 4.27% interest p.a., payable annually	5,000,000	5,000,000
November 2000; repayable in December 2005; 5.18% interest p.a., payable annually	5,000,000	5,000,000
July 1999; repaid in July 2004; 5.99% interest	-	2,250,000
	15,000,000	17,250,000
Current portion	(10,000,000)	(2,250,000)
	$ 5,000,000	$ 15,000,000

13. LONG-TERM BANK LOANS

	2005	2004
Mortgage bank loans:		
Repayable in July 2010 (￥4.4 billion); floating rate – 0.2168% and 0.2085% p.a. as of June 30, 2005 and 2004, respectively	$ 1,261,040	$ 1,367,520
Repayable in December 2006 (￥2.6 billion); floating rate – 0.2160% and 0.2212% p.a. as of June 30, 2005 and 2004, respectively	745,160	808,080
Repayable in July 2010 (￥2.2 billion); floating rate at 0.2590% p.a. in June 2005	630,520	-
Repayable in July 2010 (￥3.3 billion); floating rate at 0.3550%; p.a. in June 2005	945,780	-
	$ 3,582,500	$ 2,175,600

As of June 30, 2005, the Corporation had long-term bank loans in yen to hedge the exchange rate fluctuations of its investments in yen in East Asia United Steel Corporation and Maruichi Steel Tube Ltd. (Note 7).

14. PENSION PLAN

The Corporation has a defined benefit pension plan for all regular employees, which provides pension benefits based on length of service and average basic salary of the six months before retirement.

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Central Trust of China in the name of, and administered by, the employees' pension fund administration committee. The changes in the fund are summarized as follows:

	2005	2004
Balance, beginning of period	$ 10,503,035	$ 9,270,619
Contributions	673,559	610,019
Interest income	117,438	123,434
Payment of benefits	(70,702)	(62,487)
Balance, end of period	$ 11,223,330	$ 9,941,585

Starting August 1999, the Corporation has made contributions, equal to a certain percentage of salaries of management personnel (vice president and above), to another pension fund, which is deposited in the International Commercial Bank of China in the name of, and administered by, the officers' pension fund management committee. The changes in the fund are summarized as follows:

	2005	2004
Balance, beginning of period	$ 9,982	$ 7,250
Contributions	2,602	6,165
Interest income	69	50
Payment of benefits	-	(4,632)
Balance, end of period	$ 12,653	$ 8,833

Pension costs recognized for the six months ended June 30, 2005 and 2004 were $665,668 thousand and $578,569 thousand, respectively.

The Labor Pension Act (the "Act"), which provides a new defined contribution pension plan, took effect on July 1, 2005. An employee may choose retirement benefits under either the original Labor Standards Law or the Act. Under the Act, the Corporation's monthly contributions to the employees' retirement fund should be at least 6% of the employee's monthly salary.

15. DEFERRED CREDITS - GAIN ON INTERCOMPANY TRANSACTIONS

	2005	2004
Gain on disposal of land	$ 1,136,164	$ 1,405,040
Gain on contracted projects	12,278	3,926
	$ 1,148,442	$ 1,408,966

A deferred income of $1,405,040 thousand was the unrealized gain from the sale of land to a subsidiary, China Prosperity Development Corporation (CPDC), in February 1999. The Corporation repurchased some of the land from CPDC in the first half of 2005 for office building construction and thus decreased its deferred credits by $268,876 thousand. The remaining deferred credit will be recognized as income when CPDC resells the rest of the Corporation's land to third parties.

The Corporation obtained building construction projects from KRTC, resulting in a deferred revenue. The accumulated credits will be recognized as income over the service lives of the buildings after completion of the construction, expected in 2007.

16. STOCKHOLDERS' EQUITY

a. Capital stock

As of June 30, 2005, there were 1,000 shares converted from preferred stock into common stock, and the registration of this conversion was in process.

b. Treasury stock

Purpose	Thousand Shares Beginning of Period	Thousand Shares Decrease	June 30 Thousand Shares	June 30 Amount
2005				
Shares acquired and held by subsidiaries	106,652	1,364	105,288	$ 1,635,075
2004				
1) Shares acquired and held by subsidiaries	86,237	-	86,237	$ 1,176,187
2) Shares acquired for transfer to employees	36	-	36	516
	86,273	-	86,273	$ 1,176,703

1) Shares acquired and held by subsidiaries

The Corporation's 96,026 thousand shares acquired and held by subsidiaries were accounted for as treasury stock (recorded as long-term or short-term investment by investees), which had a carrying value of $1,356,485 thousand as of January 1, 2002. As mentioned in Note 2, effective 2005, the Corporation's shares acquired and held by subsidiaries and other equity-method investees substantially controlled by the Corporation were reclassified as treasury stock. The change resulted in an increase of 22,189 thousand treasury shares, with a carrying value of $539,707 thousand as of January 1, 2005. In the first half 2005, treasury stock decreased by 1,364 thousand shares because of subsidiaries' purchase or disposal of their holdings of the Corporation's shares. The difference between the disposal proceeds of $54,877 thousand and carrying value of $30,678 thousand was recorded as capital surplus. The market values of the treasury shares were $3,323,948 thousand and $2,610,403 thousand as of June 30, 2005 and 2004, respectively.

Although these shares are treated as treasury stock in the financial statements, the stockholders are entitled to exercise their rights on these stocks, except participation in the Corporation's capital increase by cash. However, effective June 2005, the revised Company Law stipulates that treasury stockholders have no voting rights.

2) Shares acquired for transfer to employees

In August 2004, the Corporation transferred 36 thousand treasury shares, which were reacquired in 2001, to its employees and resulted in decreases in capital surplus of $82 thousand.

Under the Securities Transaction Law, the Corporation's share repurchase is restricted to up to 10% of total issued shares, and the total purchase amount should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should transfer those shares to employees within three years. These shares are deemed unissued if they are not transferred in time and the Corporation should then register with the government a capital decrease. Further, the Corporation should not pledge these stocks as collateral and should not collect dividends or exercise voting rights on these stocks.

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs (MOEA) (the shares were transferred to the Ministry of Finance in 2005) sold its shares in the Corporation through issuances of 67,436,450 units of Global Depositary Receipts (international GDR) and 20,892,700 units of Rule 144A American Depositary Receipts (Rule 144A ADR) to international investors, with each unit representing 20 shares of the Corporation's common stock. The depositary shares increased by 4,513,815 units when retained earnings were capitalized. Under relevant regulations, the International GDR or Rule 144A ADR holders may also request the conversion to the shares represented by the International GDR or Rule 144A ADR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of June 30, 2005, the outstanding depositary receipts were 16,414,535 units, equivalent to 328,290,814 common shares and 3.32% of the outstanding common shares.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

1) 14% annual dividends, with dividend payments preferred to those to common stockholders;

2) Preference over common stock in future payment of dividends in arrears;

3) Redemption of stock, at the Corporation's option, out of its retained earnings or the proceeds from issuance of new shares;

4) The same rights as common stockholders, except the right to vote for directors and supervisors; and

5) Conversion of shares into common stock.

e. Capital surplus

Following are the capital surplus sources:

	2005	2004
Revaluation increment on assets (Note 8)	$1,535,363	$ 339,174
Treasury stock transactions	660,571	268,909
Long-term investments under the equity method	194,542	91,813
Others	8,099	8,099
	$2,398,575	$ 707,995

Under relevant regulations, the capital surplus from revaluation increment on assets may only be used to offset a deficit after 2002. Capital surplus from treasury stock transactions may be used to offset a deficit or transferred to capital. Capital surplus from long-term investment accounted for under the equity method is prohibited from any use.

f. Appropriation of retained earnings

The Corporation's Articles of Incorporation provides that the annual net income, less any deficit, should be appropriated in the following order:

1) 10% as legal reserve, until its balance equals the Corporation's paid-in capital;

2) Preferred stock dividends at 14% of paid-in capital;

3) Of the remainder, 0.3% as remuneration to directors and supervisors and 3% to 5% as bonus to employees (in their meeting in June 2004, the stockholders resolved to change the appropriation rate for employee bonus from 3% to between 3% and 5%, which started from the 2004 earnings distribution in 2005);

4) Common-stock dividends at 14% of paid-in capital; and

5) The remainder, if any, as additional dividends appropriated equally between the preferred and common stockholders.

The Board of Directors should propose the appropriation of annual income. If necessary, it may, after appropriating preferred stock dividends at 14% of paid-in capital, propose to retain certain earnings as a special reserve. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders equity, excluding treasury stock. Effective 2002, if the market price is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when debit balances are partially or fully reversed.

The Corporation's steel business is in a phase of stable growth; thus, more than 75% of the appropriation of dividends and bonus should be in cash and less than 25% in stock.

Under the Company Law, legal reserve may be used to offset a deficit. When the reserve has reached 50% of paid-in capital, up to 50% of the reserve may be transferred to capital.

In their June 2005 and 2004 meetings, the Corporation's stockholders approved the following appropriation of the 2004 and 2003 earnings, which was proposed by the Board of Directors in March 2005 and 2004, respectively.

	Amount		**Dividends Per Share**	
	2004	**2003**	**2004**	**2003**
Legal reserve	$ 5,161,667	$ 3,685,308		
Special reserve	436,524	28,651		
Preferred stocks				
Cash dividends	158,785	143,286	$ 3.90	$ 3.00
Stock dividends	20,357	16,717	0.50	0.35
			$ 4.40	$ 3.35
Common stocks				
Cash dividends	38,572,559	28,356,863	$ 3.90	$ 3.00
Stock dividends	4,945,200	3,308,301	0.50	0.35
Remuneration to directors and supervisors	138,243	98,526	$ 4.40	$ 3.35
Bonus to employees				
Cash dividends	714,035	-		
Stock dividends	1,590,021	985,263		
	$ 51,737,391	$ 36,622,915		

The Board of Directors' proposed appropriation of earnings and the resolution of the stockholders' meeting can be accessed through the Web site of the Taiwan Stock Exchange Corporation (http://emops.tse.com.tw).

As of June 30, 2005, cash dividends of $38,731,344 thousand appropriated from the 2004 earnings had not been distributed to stockholders and were thus recorded as dividends payable. Capitalization of retained earnings (including bonus to employees), which amounted to $6,555,578 thousand, was approved by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC, and will be effected on August 1, 2005.

17. INCOME TAX

a. Reconciliation between the income tax expense and the income tax calculated on pretax financial statement income based on the statutory tax rate is as follow:

	2005	2004
Tax on pretax income at statutory rate (25%)	$ 10,563,222	$ 7,073,813
Add (deduct) tax effects of differences of:		
Permanent		
Gain on disposal of investment	(93,446)	(62,051)
Investment income	(854,527)	(792,987)
Loss on capital decrease of subsidiaries	(74,652)	-
Tax-exempt income	(29,575)	-
Cash dividends	(14,998)	(33,516)
Others	31,067	2,693
	(1,036,131)	(885,861)
Temporary		
Impairment loss on long-term investments	226,500	-
Depreciation	102,044	106,683
Investment income	(54,820)	(78,608)
Unrealized gain on intercompany transactions	175,696	275
Foreign exchange loss (gain)	68,869	(19,799)
Impairment loss on assets	-	148,500
Others	(17,237)	(7,545)
	501,052	149,506
Income tax payable based on taxable income	10,028,143	6,337,458
Tax credits	(452,994)	(359,719)
Separate income tax on interest income	26,542	6,458
Prior periods' adjustments	(47,732)	(48,912)
Tax payable	9,553,959	5,935,285
Deferred tax adjustments	(86,374)	(238,868)
	$ 9,467,585	$ 5,696,417

b. The changes in income tax payable were as follows:

	2005	2004
Balance, beginning of period	$ 9,405,065	$ 6,539,733
Current income tax	9,553,959	5,935,285
Payment in current period	(9,290,804)	(6,398,132)
Balance, ending of period	$ 9,668,220	$ 6,076,886

(Continued)

c. Deferred income tax assets and liabilities were as follows:

	2005	2004
Current		
Deferred income tax assets		
Severance pay	$ 48,966	$ 33,529
Provision of allowance for inventory loss	39,889	41,172
Unrealized gain on intercompany transactions	174,306	-
Others	44,732	33,559
	307,893	108,260
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(20,471)	(21,085)
	287,422	87,175
Noncurrent		
Deferred income tax assets		
Impairment loss on long-term investment	240,000	-
Impairment loss on rental assets	121,620	146,742
Others	3,933	4,295
	365,553	151,037
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting – depreciation methods	(2,983,735)	(3,193,768)
Foreign investment income	(331,667)	-
Unrealized exchange gain	(68,869)	-
	(3,384,271)	(3,193,768)
	(3,018,718)	(3,042,731)
Total deferred income tax liabilities-net	$ (2,731,296)	$ (2,955,556)

Temporary difference between tax reporting and financial reporting – depreciation methods resulted from the adoption of Accelerated Depreciation Method in the filing of income tax returns.

Under related regulations, the above tax benefits were investment tax credits for certain purchases of machinery and equipment, research and development, employees' training, and investment in newly emerging, important and strategic industries.

c. The Corporation's income tax returns through 2002 had been examined and cleared by the tax authorities.

d. Imputation tax system

Under the Imputation Tax System, domestic stockholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on undistributed earnings, which can be used to deduct the withholding income tax on dividends paid.

As of June 30, 2005, the balance of the imputation credit account (ICA) aggregated $14,872,323 thousand. The estimated creditable tax ratio for the 2004 earnings was 28.89%, and the actual ratio for the 2003 earnings was 23.86%.

As of June 30, 2005, undistributed earnings generated up to 1997 amounted to $35,440 thousand, which is not subject to the Imputation Tax System.

18. PERSONNEL EXPENDITURE, DEPRECIATION AND AMORTIZATION

	2005				2004			
	Cost of Revenues	Operating Expense	Others	Total	Cost of Revenues	Operating Expense	Others	Total
Personnel Expenditure								
Salary	$ 7,450,269	$ 1,321,567	$ -	$ 8,771,836	$ 6,465,027	$ 1,175,999	$ -	$ 7,641,026
Labor and health insurance	249,184	42,466	-	291,650	245,996	42,860	-	288,856
Pension cost	566,014	110,748	-	676,762	497,914	117,233	-	615,147
Others	255,035	43,614	-	298,649	110,947	19,904	-	130,851
	$ 8,520,502	$ 1,518,395	$ -	$ 10,038,897	$ 7,319,884	$ 1,355,996	$ -	$ 8,675,880
Depreciation	$ 4,640,020	$ 160,071	$ 13,835	$ 4,813,926	$ 4,862,215	$ 157,690	$ 56,348	$ 5,076,253
Amortization	79,712	640	3,371	83,723	159,424	934	5,307	165,665

19. EARNINGS PER SHARE

Earnings per share (EPS) were calculated using the following numerators and denominators:

Numerator, net income

	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
Net income	$ 42,252,886	$ 32,785,301	$ 28,295,252	$ 22,598,835
Less: Preferred dividends	36,730	28,500	41,861	33,433
Basic EPS				
Net income of common stockholders	42,216,156	32,756,801	28,253,391	22,565,402
Effect of potentially diluted shares:				
14% cumulative and convertible preferred stocks	36,730	28,500	41,861	33,433
Diluted EPS				
Net income of common stockholders and effect of potentially diluted shares	$ 42,252,886	$ 32,785,301	$ 28,295,252	$ 22,598,835

Denominator - thousand shares

	2005	2004
Weighted average of issued common shares	9,890,400	9,452,324
Add: Retroactive adjustments for capitalization of retained earnings	-	431,028
Less: Weighted average of treasury stocks		
Issued stocks purchased by the Corporation	-	36
Corporation's shares held by subsidiaries	105,288	89,255
	9,785,112	9,794,061
Potentially diluted preferred stocks	40,714	47,762
	9,825,826	9,841,823

In EPS calculation, the number of outstanding shares is retroactively adjusted for the effect of capitalization of 2003 retained earnings. Thus EPS before tax and after tax in 2004 decreased from NT$3.02 to NT$2.88 and from NT$2.41 to NT$2.30, respectively.

Capitalization of the 2004 retained earnings of $6,555,578 thousand (655,558 thousand shares) will be effected on August 1, 2005. The EPS will then be retroactively adjusted for the effect of capitalization of retained earnings, summarized as follows:

	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
(New Taiwan dollars)				
Basic EPS	$ 4.05	$ 3.14	$ 2.70	$ 2.16
Diluted EPS	4.03	3.13	2.70	2.15
If the Corporation's shares held by subsidiaries had been accounted for as investments rather than treasury stock				
Basic EPS	4.01	3.11	2.68	2.14
Diluted EPS	3.99	3.10	2.67	2.13

20. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Subsidiary
China Steel Express Corporation (CSE)	Subsidiary
China Steel Chemical Corporation (CSCC)	Subsidiary
China Steel Global Trading Corporation (CSGT)	Subsidiary
China Hi-ment Corporation (CHC)	Subsidiary
China Ecotek Corporation (CEC)	Subsidiary
China Steel Structure Corporation (CSSC)	Subsidiary
Chung Hung Steel Corporation (CHSC)	Subsidiary
China Steel Machinery Corporation (CSMC)	Subsidiary
Gains Investment Corporation (GIC)	Subsidiary
China Steel Security Corporation (CSS)	Subsidiary
China Prosperity Development Corporation (CPDC)	Subsidiary
Info-Champ Systems Corporation (ICSC)	Subsidiary
China Steel Management Consulting Corporation (CSMCC)	Subsidiary
Hi-mag Magnetic Corporation (HMC)	Subsidiary
Long-Yuan-Fa Investment Corporation	Subsidiary
Horng-Yih Investment Corporation	Subsidiary
Goang-Yaw Investment Corporation	Subsidiary
Dragon Steel Corporation (DSC)	Subsidiary
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	Subsidiary
Chung Mao Trading (BVI) Corp. (CSGT-BVI)	Indirect investee under Corporation's substantial control
Chung Mao Trading (SAMOA)	Indirect investee under Corporation's substantial control
CSGT (Singapore) Pte. Ltd.	Indirect investee under Corporation's substantial control
Mentor Consulting Corporation (MCC)	Indirect investee under Corporation's substantial control
Steel Castle Technology Corp.	Indirect investee under Corporation's substantial control
Ningbo Huayang Aluminum-Tech Co., Ltd.	Indirect investee under Corporation's substantial control
Betacera Inc.	Indirect investee under Corporation's substantial control
Wabo Globe Trading Corporation (WGTC)	Indirect investee under Corporation's substantial control
Universal Exchange Inc. (UEI)	Indirect investee under Corporation's substantial control

(Continued)

Related Parties	Relationship with the Corporation
United Steel Engineering and Construction Corporation (USECC)	Indirect investee under Corporation's substantial control
Thintech Materials Technology Co., Ltd.	Indirect investee under Corporation's substantial control
Ornasteel Enterprise Corp. (M) Sdn. Bhd. (OEC)	Indirect investee under Corporation's substantial control
Group Steel Enterprise Corp. (M) Sdn. Bhd (GEC)	Indirect investee under Corporation's substantial control
CSGT (JAPAN) Co., Ltd.	Indirect investee under Corporation's substantial control
CSGT Hong Kong Limited	Indirect investee under Corporation's substantial control
CSGT (SHANGHAI) Co., Ltd.	Indirect investee under Corporation's substantial control
Ningbo Huayang Aluminum – Tech Co., Ltd. (NHAT)	Indirect investee under Corporation's substantial control
Taiwan Rolling Stock Co., Ltd. (TRSC)	Investee
Kaohsiung Rapid Transit Corporation (KRTC)	Investee
TaiAn Technologies Corporation (TTC)	Investee
Kaohsiung Labor Assemble & Disassemble Co., Ltd.	Indirect investee under Corporation's substantial control
East Asia United Steel Corporation (EAUS)	The Corporation is its director
CDIB & Partners Steel Investment Holding Corporation	The Corporation is its director
Overseas Investment & Development Corporation	The Corporation is its director
Asia Pacific Broadband Telecom Co., Ltd. (APBT, formerly Eastern Broadband Telecommunications)	The Corporation is its director

b. Significant related-party transactions:

	2005		2004	
	Amount	**%**	**Amount**	**%**
Sales				
CSSC	$ 1,777,206	2	$ 1,691,176	2
OEC	1,770,656	2	1,653,490	2
Others	3,162,166	3	2,565,628	4
	$ 6,710,028	7	$ 5,910,294	8
Purchases				
CSE	$ 7,755,557	21	$ 7,957,069	27
CAC	898,085	2	935,315	3
Others	1,330,629	4	855,472	3
	$ 9,984,271	27	$ 9,747,856	33

Sales to and purchases from related parties are made under normal terms, except those with OEC, CAC and CSE, for which there were no similar transactions in the market for comparison.

Asset lease

The Corporation leases its land and office to CAC, CSSC, CHC, CSCC and CSMC, etc. Rentals are calculated at 4% to 10% p.a. of land value as published by the government or under arms-length terms. Rentals are collected semiannually, except for rental from CAC and that from CSCC on the storage tank and pipelines, which are collected monthly. Lease information is as follows:

		Rental Income	
	Expiry of Contracts	**2005**	**2004**
CAC	February 2016	$ 23,537	$ 25,917
CSMC	November 2011	11,473	11,515
CSCC	December 2010	10,030	6,305
CSSC	May 2018	7,985	8,279
CHC	April 2012	2,467	2,483
Others	April 2009	1,529	1,315
		$ 57,021	$ 55,814

Factoring of notes receivable

The Corporation sold some of its notes receivable to MCC without recourse for $442,559 as of June 30, 2004. The related interest expenses were $2,771 thousand for the six months ended June 30, 2004.

Property transaction

In January 2005, the Corporation bought from CPDC land for office construction. The price was based on an agreement between the Corporation and CPDC.

Other expenditures

Other expenditures paid to related parties pertaining to furnace slag and clearance services, property maintenance or construction, export shipping charges, commissions for export and import services, etc. were as follows:

	2005	**2004**
CEC	$ 632,004	$ 390,529
CSSC	539,660	345,158
CSMC	380,807	244,860
CHC	255,417	222,725
USECC	234,379	225,294
CSE	135,219	130,493
Others	504,100	405,662
	$ 2,681,586	$ 1,964,721

Other revenues

Other revenues pertained to labor services, processing of products, utilities and other services to related parties.

	2005	2004
KRTC	$ 346,511	$ 23,573
CHSC	118,849	70,715
Others	373,037	667,256
	$ 838,397	$ 761,544

Short-term loans payable from related parties

In January 2005, the Corporation borrowed $1,238,738 thousand (USD $38,500 thousand) at no interest from CSAPH. As of June 30, 2005, the outstanding balance of $569,106 thousand (US$18,000 thousand), as short-term loans, will be repaid in December 2005.

c. Balances at period-end

	2005		2004	
	Amount	%	Amount	%
Receivables				
CSCC	$ 149,905	5	$ 108,599	4
Others	267,847	10	417,502	16
	$ 417,752	15	$ 526,101	20
Payables				
CSE	$1,047,285	38	$ 579,488	26
Others	152,025	6	108,320	4
	$1,199,310	44	$ 687,808	30

21. PLEDGED ASSETS

a. Time deposits of $4,631,694 thousand and $4,131,694 thousand as of June 30, 2005 and 2004, respectively, had been pledged mainly as collateral for bank overdrafts, etc.

b. The Corporation provided machinery and equipment with carrying values of $2,845,227 thousand and $5,131,767 thousand as of June 30, 2005 and 2004, respectively, as collaterals for long-term credit lines from banks.

c. As of June 30, 2004, the Corporation had provided 20,000,000 shares of CAC's stock as collateral for a credit line obtained from China Development Industrial Bank. The collateral had been revoked in September 2004, and the registration of the collateral had been.

22. COMMITMENTS AS OF JUNE 30, 2005

a. The Corporation engaged in several construction contracts, under guarantees of $1,261,528 thousand granted by the International Commercial Bank of China and Taipei Fubon Bank.

b. Unused letters of credit amounted to $11.1 billion.

c. The Corporation sold its notes receivable of $1,182,937 thousand to Chung Hsing Bills Finance Corporation (CHBFC) and also fully guaranteed these receivables. To reduce its risk on this guarantee, the Corporation obtained credit risk insurance from insurance company and also entered into an agreement with CHBFC to eliminate any loss on this credit risk.

d. The Corporation has raw materials purchase contracts with suppliers from Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia, Vietnam and domestic companies, with contract terms of 1 to 10 years. Contracted annual purchases of 8,600,000 metric tons of coal, 16,000,000 metric tons of iron ore, and 2,800,000 metric tons of stones are at prices negotiable every year. Unpurchased contracts amount as of June 30, 2005 aggregated $105.9 billion (18,680,000 metric tons of coal, 32,390,000 metric tons of iron ore, and 1,500,000 metric tons of stones).

e. In September 2003, CHSC entered into a syndicated credit facility agreement with Chiao Tung Bank and 24 other banks. Under this agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of June 30, 2005, the Corporation had total direct and indirect shareholdings in CHSC of 39.3% and two thirds of CHSC's board seats as well as significant influence on its operations.

f. KRTC entered into a syndicated credit facility agreement with the Taiwan Bank and 24 other banks. Under this agreement, the Corporation and its subsidiaries should collectively hold at least 30% of KRTC's capital stock during the construction period. As of June 30, 2005, the Corporation's and subsidiaries' total equity in KRTC was 31%.

23. FINANCIAL INSTRUMENTS

For the six months ended June 30, 2005 and 2004, the Corporation had no derivative transactions.

As of June 30, 2005 and 2004, the estimated fair values of nonderivative financial instruments were as follows:

	2005		2004	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 50,310,286	$ 50,310,286	$ 6,924,331	$ 6,924,331
Short-term investments	13,649,677	16,427,340	42,960,200	45,758,428
Notes receivable	2,012,127	2,012,127	1,327,276	1,327,276
Accounts receivable	2,790,459	2,790,459	2,696,939	2,696,939
Other receivable	2,040,593	2,040,593	3,041,916	3,041,916
Pledged time deposits	4,631,694	4,631,694	4,131,694	4,131,694
Long-term investments	64,771,652	70,492,668	43,580,622	47,624,202
Refundable deposits	220,919	220,919	70,620	70,620
Liabilities				
Short-term loans and overdraft	9,687,490	9,687,490	2,662,696	2,662,696
Commercial paper payable	-	-	1,899,318	1,899,318
Notes and accounts payable	2,748,750	2,748,750	2,276,540	2,276,540
Accrued expenses	6,416,155	6,416,155	5,604,012	5,604,012
Dividends payable	38,907,367	38,907,367	28,656,319	28,656,319
Long-term bonds	15,000,000	15,877,820	17,250,000	18,536,358
Long-term bank loans	3,582,500	3,582,500	2,175,600	2,175,600

The assumptions and methods used to estimate the fair values of financial instruments are as follows:

a. The carrying values of cash and cash equivalents, notes and accounts receivable, other receivables, pledged time deposits, short-term bank loans and overdraft, commercial paper payable, notes and accounts payable, accrued expenses and dividend payable approximate fair value because of the short maturities of these instruments.

b. The fair values of short-term investments and long-term investments are determined at market values or net asset values.

c. The fair values of long-term liabilities are determined by the present values of future cash flows, with the values discounted at the interest rates of similar long-term debts available for the Corporation.

d. The fair values of refundable deposits are determined at their carrying values.

Appendix

CHINA STEEL CORPORATION
ADDITIONAL EXPLANATION FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2005 AND 2004

1. Adjustment of equity in investees due to change in percentage of ownership.

(1) Long-term investment adjustment

When an investee has capital surplus from sources other than the investor company, the investor should debit the long-term investment account and credit the capital surplus account in accordance with its stockholding percentage.

(2) Adjustment of equity in investees due to change in percentage of ownership

If an investee issues new shares and original stockholders do not purchase or acquire new shares proportionately, then the investment percentage, and thus the equity in the investee's net assets, will change. This change will be treated as an adjustment of the additional paid-in capital and the long-term investments accounts. If this adjustment requires debiting of the additional paid-in capital account on long-term stock investments and the book balance of this account is not enough for debiting purposes, the difference should be debited to the unappropriated retained earnings account.

2. Reversal of unrealized loss on investees' long-term investments

When the market value of cost-method investee's shares traded in the public market falls below carrying value, the decline is charged to unrealized loss on investees' long-term investments as a reduction of stockholder's equity. When the market value recovers, the unrealized loss will be reversed up to zero.

3. Investees' unrecognized net loss on pension cost

Unrecognized net loss on pension cost is the minimum pension liability exceeding the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation. It is classified as a reduction of stockholders' equity.

Minimum pension liability, which is calculated actuarially, is the minimum amount of pension liability that is required to be recognized on the balance sheet.

Prior service cost is the increase in projected benefit obligation due to an employee's accumulation of service years at the initial introduction of pension data or the subsequent pension data amendment.

Unrecognized transitional net assets or benefit obligation means the amount resulting from a change from a method specified in Statement of Financial Accounting Standards No.18, "Accounting for Pensions." This amount is the difference between (a) the fair market value of plan assets plus accrued pension liability or less prepaid pension cost recognized previously in the books and (b) the projected benefit obligation. If the difference is positive, it is treated as unrecognized transition net assets; if the difference is negative, it is treated as unrecognized transition net benefit obligations.

4. Transfer of treasury stock to employees.

When treasury stocks are sold, if the selling price is higher than the book value, the difference should be credited to capital surplus. If the selling price is lower than book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, should be debited to unappropriated retained earnings.

5. Disposal of the Corporation's shares held by subsidiaries

A parent company should account for its outstanding stocks held by its subsidiary as treasury stocks when it recognizes investment income and prepares financial statements, and the accounting treatment is the same as that stated in item 4 above.

6. Cash dividends declared by the Corporation and received by subsidiaries

When an investor receives cash dividends from short-term investments or long-term cost-method investments from a year after investment acquisition, it records these dividends as investment income. But if the cash dividend is from the parent company, the accounting for these dividends is the same as that for treasury stock, i.e., the investment income should be credited to capital surplus when the parent company prepares financial statements.